

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|---------------------------------|--|------------------|
| Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name: <u>City of Mount Clemens, Michigan</u> | County Macomb |
| Audit Date June 30, 2004 | Opinion Date August 27, 2004 | Date Accountant Report Submitted To State: November 19, 2004 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | |
|---|-----------------------|-------------|--------------|
| Certified Public Accountant (Firm Name): Plante & Moran, PLLC | | | |
| Street Address 10 South Main Street, Suite 200 | City Mount Clemens | State MI | ZIP 48043 |
| Accountant Signature  | | | |

City of Mount Clemens, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Mount Clemens, Michigan

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City of Mount Clemens, Michigan

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Independent Auditor's Report

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mount Clemens, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budget comparison schedule, and retirement system schedules of funding progress and employer contributions, identified in the table of contents as required supplemental information, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



A worldwide association of Independent accounting firms

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Clemens, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 27, 2004

City of Mount Clemens, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Mount Clemens, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$244,000 this year due to a declining State economy and State budget cutbacks. The City reacted by requesting each department to review and reduce their budgets.
- As a result of Proposal A, the increase in property value assessments was capped at 2.3 percent.
- The City's retirement contribution increased, based on the annual actuarial valuation, by approximately \$312,000 due to a downturn in the economy and lower investment earnings.
- Health insurance premiums for City employees and retirees realized a large increase of 12 percent.
- To improve our downtown parking, the City's Building Authority continued work on a project begun in 2003 to increase parking by approximately 500 spaces, and to improve traffic circulation and consistency for visitors. Funding was provided through the issuance of bonds totaling \$5,200,000. To ensure adequate revenue, the City has purchased 1,200 new parking meters and refurbished approximately 400 existing meters. We are in the process of installing a new program to audit and monitor meter collections.
- The City decreased staffing by 16 full-time and six part-time positions in 2004. Retiring employees' positions are evaluated for need of replacement. During the year, four retiring employee positions were not filled.
- The City continuously reviews the organization and looks to improve the services and flow of work throughout.
- The City was awarded a Brownfield grant and this year purchased GIS software. This program allows us access to the County's aerial view of the City's parcels.
- The City established a Historic District, which will provide a 25 percent tax credit to residents for improving their property.
- The City Commission approved a letter of agreement with Macomb County Public Works and Clinton Township for the utilization of the Mount Clemens Wastewater Treatment Plant.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

- The City received two awards for the CSO elimination project: the 2002 Water Quality Award from the Clinton River Water Quality Board and a 2004 Award of Merit from the Michigan Society of Professional Engineers and the American Council of Engineering Companies of Michigan. Additionally, the Utilities Director has received notice that our Wastewater Treatment facility was selected as the "First Place National Award Winner" in the U.S. Environmental Protection Agency's 2004 Clean Water Act Recognition Award Combined Sewer Overflow category.
- Total net assets related to the City's governmental activities decreased by approximately \$358,000. The unrestricted portion of net assets decreased by approximately \$483,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004 and 2003 (in thousands of dollars).

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Assets | | | | | | |
| Current assets | \$ 7,436 | \$ 8,183 | \$ 5,538 | \$ 3,069 | \$ 12,974 | \$ 11,252 |
| Noncurrent assets | 12,897 | 13,571 | 68,763 | 69,283 | 81,660 | 82,854 |
| Total assets | 20,333 | 21,754 | 74,301 | 72,352 | 94,634 | 94,106 |
| Liabilities | | | | | | |
| Current liabilities | 659 | 882 | 1,278 | 760 | 1,937 | 1,642 |
| Long-term liabilities | 2,354 | 3,190 | 41,650 | 39,180 | 44,004 | 42,370 |
| Total liabilities | 3,013 | 4,072 | 42,928 | 39,940 | 45,941 | 44,012 |
| Net Assets | | | | | | |
| Invested in capital assets - | | | | | | |
| Net of related debt | 11,343 | 11,383 | 27,675 | 29,492 | 39,018 | 40,875 |
| Restricted | 3,835 | 3,372 | 438 | 728 | 4,273 | 4,100 |
| Unrestricted | 2,142 | 2,927 | 3,260 | 2,192 | 5,402 | 5,119 |
| Total net assets | <u>\$ 17,320</u> | <u>\$ 17,682</u> | <u>\$ 31,373</u> | <u>\$ 32,412</u> | <u>\$ 48,693</u> | <u>\$ 50,094</u> |

Net assets of the governmental activities totaled approximately \$17.3 million at June 30, 2004, a decrease of approximately 2 percent from June 30, 2003. Unrestricted net assets of the governmental activities, the part of net assets used to finance day-to-day operations, decreased approximately 26 percent from June 30, 2003.

In reviewing the City's net assets of business-type activities, the net assets invested in capital assets, net of related debt, decreased approximately 5 percent due to depreciation expense. Total net assets of the business-type activities decreased by approximately \$1,039,000 primarily due to losses in the City's Sewage Disposal and Sanitary Systems.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2004 and 2003 (in thousands of dollars).

| | Governmental | | Business-type Activities | | Total | |
|---|-----------------|----------------|--------------------------|-----------------|-------------------|-----------------|
| | Activities | | Activities | | | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 3,141 | \$ 2,808 | \$ 8,746 | \$ 9,154 | \$ 11,887 | \$ 11,962 |
| Operating grants and contributions | 1,334 | 1,691 | - | - | 1,334 | 1,691 |
| Capital grants and contributions | - | - | 6 | 12 | 6 | 12 |
| General revenue: | | | | | | |
| Property taxes | 6,878 | 6,567 | 186 | 319 | 7,064 | 6,886 |
| State-shared revenue | 2,131 | 2,336 | - | - | 2,131 | 2,336 |
| Unrestricted investment earnings | 94 | 120 | 71 | 57 | 165 | 177 |
| Franchise fees | 164 | 140 | - | - | 164 | 140 |
| Income from joint venture | 19 | 191 | - | - | 19 | 191 |
| Gain on sale of assets | 2 | 237 | - | - | 2 | 237 |
| Miscellaneous revenue | 314 | 428 | - | - | 314 | 428 |
| Total revenue | 14,077 | 14,518 | 9,009 | 9,542 | 23,086 | 24,060 |
| Program Expenses | | | | | | |
| General government | 4,234 | 4,200 | - | - | 4,234 | 4,200 |
| Public safety | 6,710 | 6,520 | - | - | 6,710 | 6,520 |
| Public works | 2,144 | 2,355 | - | - | 2,144 | 2,355 |
| Recreation and culture | 479 | 790 | - | - | 479 | 790 |
| Interest on long-term debt | 57 | 80 | - | - | 57 | 80 |
| Sewage disposal system | - | - | 5,173 | 4,625 | 5,173 | 4,625 |
| Water supply system | - | - | 2,404 | 2,478 | 2,404 | 2,478 |
| Sanitary system | - | - | 858 | 1,462 | 858 | 1,462 |
| Automobile parking system | - | - | 633 | 365 | 633 | 365 |
| Ice arena | - | - | 1,795 | 1,835 | 1,795 | 1,835 |
| Total program expenses | 13,624 | 13,945 | 10,863 | 10,765 | 24,487 | 24,710 |
| Excess (Deficiency) - Before transfers | 453 | 573 | (1,854) | (1,223) | (1,401) | (650) |
| Transfers | (815) | (620) | 815 | 620 | - | - |
| Change in Net Assets | <u>\$ (362)</u> | <u>\$ (47)</u> | <u>\$ (1,039)</u> | <u>\$ (603)</u> | <u>\$ (1,401)</u> | <u>\$ (650)</u> |

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's three largest revenue items are property taxes that total 48.8 percent of the revenue; charges for services, including District Court fees, Building Department fees, business permits and fees, at 22.3 percent; and State-shared revenue at 15.1 percent. These three revenue sources total 86.2 percent of the total revenue. This past fiscal year, our revenue decreased as a result of State-shared revenue cuts.

Public safety expenses in the governmental activities account for nearly half of the total amounts expended. General government and public works expenses were the next largest functions. This past year, the City experienced significant increases in health insurance and retirement contribution expenses. In total, there was a reduction in net assets totaling approximately \$358,000. The City management finds this result reasonable; the decrease in net assets would probably have been worse if not for the reduction of employees, seasonal help, and retirements along with the constant review of the City's spending.

Business-type Activities

The City's business-type activities include water, sewer, sanitation, auto parking, and ice arena. The City provides water and sewer through its own water plant and sewage treatment plant. The ice arena is owned by the City, but is operated by a management company, and has provided the funds to cover all expenses including the bond issue for the building of the arena. These bonds were defeased in a previous year to lower the interest rate for a savings to the City, the management company, and the customers.

Rates for the various Enterprise Funds (Water, Sewer, Sanitation, Ice Arena, and Auto Parking) are reviewed and approved annually. Expenses are continuously reviewed and discussed with the City Commission.

The City's Funds

Our analysis of the City's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major governmental fund is the General Fund; all other funds are reported as nonmajor funds. The other supplemental information includes combining schedules that present the individual nonmajor funds. All of the City's Enterprise Funds are presented as major funds.

The General Fund pays for most of the City's governmental services. The most significant are police and fire and general government services, which incurred expenditures of approximately \$4.85 million and \$3.12 million, respectively, in 2004.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

During the year, the City amended the budget to take into account various events that occurred during the year. Some of these events in revenue were: State-shared revenue reductions of approximately \$226,000, and a \$220,000 decrease in District Court fines and fees from the original budget.

There was a decrease in budgeted expenditures for the District Court due to retirement, no seasonal help, and re-organization. In the public safety sector, the police and fire departments experienced an increase in overtime due to reduction of staff and unexpected payouts of accumulated compensated absences. The pension contribution increased due to the actuarial required contribution being more than originally anticipated.

Capital Asset and Debt Administration

In the past two years, the City's governmental activities have invested in a new fire pumper, warning sirens, and cameras and laptops for police vehicles. Future projects include the new 911 enhancement program with Macomb County.

The City's business-type activities made a substantial investment of over \$40 million in the separation of storm and sanitary drain lines, new water and sewer lines, and related street improvements in the past five years. The City issued bonds through the State of Michigan totaling \$29,689,530, with interest rates of 2.25 percent and 2.50 percent. The balance of the project was funded through special assessments and City contributions. The project was completed in June 2002.

During the previous fiscal year, the City began the reconstruction of several parking lots located in the downtown area. This project will increase the total number of parking spaces in the City by approximately 500 spaces and will be completed in fiscal year 2005. Bonds were issued in 2004 totaling \$5,200,000 to fund the project. The City received a bond rating from Standard and Poors of "AAA".

In two years, the City will see a major reduction in debt for the business-type activities. This is due to the final payments on the 1986 wastewater treatment plant bond issue and the related 1993 refunding bonds. During this fiscal year, the principal and interest payment on this debt totaled \$1,465,000.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Current Economic Conditions and Next Year's Budget

The City will continue to face difficulty in balancing its budget due to inherent limitations on its primary sources of revenue. The three major funding sources for the City are property taxes, state-shared revenues, and fees and charges, all of which are subject to limitations that will prevent them from increasing by much more than the rate of inflation, for at least the foreseeable future. On the other hand, expenses are expected to increase by more than inflation in many areas such as health insurance, retiree benefits, and energy costs. Through the use of long-term planning, the City will continue to evaluate and monitor its budget. Adjustments will be made to address changes in economic conditions and other events.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office at (586) 469-6818.

City of Mount Clemens, Michigan

Statement of Net Assets June 30, 2004

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|----------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents (Note 3) | \$ 5,146,541 | \$ 3,665,016 | \$ 8,811,557 | \$ 276,383 |
| Investments (Note 3) | 250,000 | 450,000 | 700,000 | - |
| Receivables: | | | | |
| Taxes - Net of allowance of \$37,261 | 140,410 | 16,379 | 156,789 | 1,789 |
| Customers | - | 1,643,112 | 1,643,112 | - |
| Special assessments | 232,018 | - | 232,018 | - |
| Other governmental units: | | | | |
| Component units | 11,071 | - | 11,071 | - |
| Other (Note 4) | 1,084,619 | - | 1,084,619 | - |
| Accrued interest and other | 12,470 | 53,100 | 65,570 | - |
| Interfund balances (Note 6) | 558,903 | (558,903) | - | - |
| Inventories | - | 155,945 | 155,945 | - |
| Other assets | - | 113,472 | 113,472 | - |
| Investment in joint venture (Note 13) | 314,248 | - | 314,248 | - |
| Restricted assets (Notes 3 and 8) | - | 804,182 | 804,182 | - |
| Capital assets (Note 5): | | | | |
| Non-depreciable capital assets | 2,791,978 | 4,766,406 | 7,558,384 | - |
| Depreciable capital assets (Net) | 9,791,166 | 63,192,844 | 72,984,010 | - |
| Total assets | 20,333,424 | 74,301,553 | 94,634,977 | 278,172 |
| Liabilities | | | | |
| Accounts payable | 466,740 | 768,608 | 1,235,348 | 56,444 |
| Accrued and other liabilities | 184,522 | 509,728 | 694,250 | 669 |
| Deferred revenue (Note 4) | 7,657 | - | 7,657 | - |
| Due to primary government | - | - | - | 11,071 |
| Noncurrent liabilities (Note 7): | | | | |
| Due within one year | 625,189 | 3,029,065 | 3,654,254 | 275,000 |
| Due in more than one year | 1,729,164 | 38,620,962 | 40,350,126 | - |
| Total liabilities | 3,013,272 | 42,928,363 | 45,941,635 | 343,184 |
| Net Assets (Deficit) | | | | |
| Invested in capital assets - Net of related debt | 11,343,175 | 27,674,677 | 39,017,852 | - |
| Restricted: | | | | |
| Streets | 1,271,976 | - | 1,271,976 | - |
| Debt service | 1,118,876 | - | 1,118,876 | - |
| Transportation | 519,707 | - | 519,707 | - |
| Construction | 924,859 | - | 924,859 | - |
| Revenue bond ordinances | - | 438,633 | 438,633 | - |
| Unrestricted | 2,141,559 | 3,259,880 | 5,401,439 | (65,012) |
| Total net assets (deficit) | \$ 17,320,152 | \$ 31,373,190 | \$ 48,693,342 | \$ (65,012) |

City of Mount Clemens, Michigan

| | Program Revenues | | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions/Programs | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 4,233,645 | \$ 2,294,351 | \$ 162,615 | \$ - |
| Public safety | 6,710,171 | 677,770 | 99,567 | - |
| Public works | 2,144,406 | 140,563 | 1,068,736 | - |
| Recreation and culture | 479,351 | 28,793 | 3,221 | - |
| Interest on long-term debt | 57,348 | - | - | - |
| Total governmental activities | 13,624,921 | 3,141,477 | 1,334,139 | - |
| Business-type activities: | | | | |
| Sewage Disposal System | 5,172,920 | 4,054,626 | - | 5,835 |
| Water Supply System | 2,404,433 | 2,167,738 | - | - |
| Sanitary System | 857,859 | 326,698 | - | - |
| Automobile Parking System | 632,756 | 341,880 | - | - |
| Ice Arena | 1,795,261 | 1,854,694 | - | - |
| Total business-type activities | 10,863,229 | 8,745,636 | - | 5,835 |
| Total primary government | <u>\$ 24,488,150</u> | <u>\$ 11,887,113</u> | <u>\$ 1,334,139</u> | <u>\$ 5,835</u> |
| Component units: | | | | |
| Downtown Development Authority | \$ 448,349 | \$ 107,192 | \$ - | \$ - |
| Brownfield Redevelopment Authority | 5,679 | - | - | - |
| Total component units | <u>\$ 454,028</u> | <u>\$ 107,192</u> | <u>\$ -</u> | <u>\$ -</u> |
| General revenues: | | | | |
| Property taxes | | | | |
| State-shared revenues | | | | |
| Unrestricted investment earnings | | | | |
| Franchise fees | | | | |
| Miscellaneous | | | | |
| Income from joint venture | | | | |
| Gain on sale of assets | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |
| Change in Net Assets | | | | |
| Net Assets (Deficit) - Beginning of year | | | | |
| Net Assets (Deficit) - End of year | | | | |

Statement of Activities
Year Ended June 30, 2004

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|----------------------|--------------------|
| Primary Government | | | Component Units |
| Governmental Activities | Business-type Activities | Total | |
| \$ (1,776,679) | \$ - | \$ (1,776,679) | \$ - |
| (5,932,834) | - | (5,932,834) | - |
| (935,107) | - | (935,107) | - |
| (447,337) | - | (447,337) | - |
| (57,348) | - | (57,348) | - |
| (9,149,305) | - | (9,149,305) | - |
| - | (1,112,459) | (1,112,459) | - |
| - | (236,695) | (236,695) | - |
| - | (531,161) | (531,161) | - |
| - | (290,876) | (290,876) | - |
| - | 59,433 | 59,433 | - |
| - | (2,111,758) | (2,111,758) | - |
| (9,149,305) | (2,111,758) | (11,261,063) | - |
| - | - | - | (341,157) |
| - | - | - | (5,679) |
| - | - | - | (346,836) |
| 6,877,993 | 185,587 | 7,063,580 | 606,257 |
| 2,131,016 | - | 2,131,016 | - |
| 93,891 | 71,574 | 165,465 | 1,493 |
| 164,209 | - | 164,209 | - |
| 314,456 | - | 314,456 | - |
| 18,678 | - | 18,678 | - |
| 1,932 | - | 1,932 | - |
| (815,000) | 815,000 | - | - |
| 8,787,175 | 1,072,161 | 9,859,336 | 607,750 |
| (362,130) | (1,039,597) | (1,401,727) | 260,914 |
| 17,682,282 | 32,412,787 | 50,095,069 | (325,926) |
| \$ 17,320,152 | \$ 31,373,190 | \$ 48,693,342 | \$ (65,012) |

City of Mount Clemens, Michigan

Governmental Funds Balance Sheet June 30, 2004

| | Major Fund - General Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|------------------------------|--|--------------------------------|
| Assets | | | |
| Cash and cash equivalents (Note 3) | \$ 980,209 | \$ 3,719,767 | \$ 4,699,976 |
| Investments (Note 3) | 250,000 | - | 250,000 |
| Receivables: | | | |
| Taxes - Net of allowance of \$37,261 | 100,753 | 39,657 | 140,410 |
| Special assessments | - | 232,018 | 232,018 |
| Other governmental units: | | | |
| Component units | 11,071 | - | 11,071 |
| Other (Note 4) | 897,218 | 187,401 | 1,084,619 |
| Accrued interest and other | - | 12,470 | 12,470 |
| Due from other funds (Note 6) | 520,942 | 39,000 | 559,942 |
| Total assets | <u>\$ 2,760,193</u> | <u>\$ 4,230,313</u> | 6,990,506 |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 350,893 | \$ 77,647 | 428,540 |
| Accrued and other liabilities | 122,730 | 11,574 | 134,304 |
| Deferred revenue (Note 4) | 7,657 | 232,018 | 239,675 |
| Due to other funds | - | 1,039 | 1,039 |
| Due to other governmental units | 29,900 | 2,740 | 32,640 |
| Total liabilities | 511,180 | 325,018 | 836,198 |
| Fund Balances | | | |
| Reserved for debt service | - | 1,118,876 | 1,118,876 |
| Unreserved: | | | |
| Designated (Note 12) | 2,040,000 | - | 2,040,000 |
| Undesignated | 209,013 | - | 209,013 |
| Unreserved - Reported in nonmajor funds - Special Revenue Funds | - | 2,786,419 | 2,786,419 |
| Total fund balances | 2,249,013 | 3,905,295 | 6,154,308 |
| Total liabilities and fund balances | <u>\$ 2,760,193</u> | <u>\$ 4,230,313</u> | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--|----------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 11,908,523 |
| Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures | 232,018 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | (2,093,395) |
| Accrued interest is recognized when incurred in the statement of net assets | (16,636) |
| The investments in joint venture are not reported in the funds | 314,248 |
| Internal Service Funds are included as part of governmental activities | 821,086 |
| Net assets of governmental activities | <u>\$ 17,320,152</u> |

City of Mount Clemens, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

| | Major Fund - General Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|------------------------------|--|--------------------------------|
| Revenue | | | |
| Property taxes | \$ 5,233,222 | \$ 1,471,669 | \$ 6,704,891 |
| Federal entitlement and grant revenue | 108,154 | - | 108,154 |
| State-shared - Grants and other revenue | 2,179,573 | 1,115,573 | 3,295,146 |
| Local intergovernmental revenue | - | 48,258 | 48,258 |
| Special assessments | - | 214,112 | 214,112 |
| Charges for services | 902,693 | 62,828 | 965,521 |
| Licenses and permits | 524,367 | - | 524,367 |
| Interest | 27,286 | 50,877 | 78,163 |
| Fines, forfeitures, and probation screening fees | 1,586,754 | 347,618 | 1,934,372 |
| Miscellaneous revenue | <u>721,932</u> | <u>10,229</u> | <u>732,161</u> |
| Total revenue | 11,283,981 | 3,321,164 | 14,605,145 |
| Expenditures | | | |
| Current: | | | |
| General government | 3,120,437 | - | 3,120,437 |
| Public safety | 4,852,362 | 4,695 | 4,857,057 |
| Public works | 548,821 | 1,476,031 | 2,024,852 |
| Recreation | 292,058 | - | 292,058 |
| Other functions | 3,266,135 | - | 3,266,135 |
| Debt service: | | | |
| Principal retirement | - | 495,000 | 495,000 |
| Interest and fiscal charges | <u>-</u> | <u>54,198</u> | <u>54,198</u> |
| Total expenditures | <u>12,079,813</u> | <u>2,029,924</u> | <u>14,109,737</u> |
| Excess of Revenue Over (Under) Expenditures | (795,832) | 1,291,240 | 495,408 |
| Other Financing Sources (Uses) | | | |
| Transfers in | - | 370,950 | 370,950 |
| Transfers out | <u>-</u> | <u>(1,185,950)</u> | <u>(1,185,950)</u> |
| Total other financing sources (uses) | <u>-</u> | <u>(815,000)</u> | <u>(815,000)</u> |
| Change in Fund Balances | (795,832) | 476,240 | (319,592) |
| Fund Balances - Beginning of year | <u>3,044,845</u> | <u>3,429,055</u> | <u>6,473,900</u> |
| Fund Balances - End of year | <u><u>\$ 2,249,013</u></u> | <u><u>\$ 3,905,295</u></u> | <u><u>\$ 6,154,308</u></u> |

City of Mount Clemens, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (319,592)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

| | |
|-----------------------------|-----------|
| Capital outlay expenditures | 191,344 |
| Depreciation expense | (815,968) |

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (158,597)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 624,331

Accrued interest is recorded on debt when incurred in the statement of activities 9,134

Decrease in accumulated employee compensated absences is recorded when earned in the statement of activities 175,372

Income from joint venture is not recorded in the funds 18,678

Internal Service Funds are also included as governmental activities (86,832)

Change in Net Assets of Governmental Activities \$ (362,130)

City of Mount Clemens, Michigan

| | Enterprise Funds | | |
|---|---------------------------|------------------------|------------------------|
| | Sewage Disposal System | Water Supply System | Sanitary Department |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents (Note 3) | \$ - | \$ - | \$ 1,089,041 |
| Investments (Note 3) | - | - | 450,000 |
| Receivables: | | | |
| Taxes | - | - | 16,379 |
| Customers | 1,084,950 | 477,119 | 81,043 |
| Accrued interest and other | - | 737 | 3,512 |
| Due from other funds (Note 6) | 626,231 | - | 587,096 |
| Inventories | 6,694 | 88,446 | - |
| Total current assets | 1,717,875 | 566,302 | 2,227,071 |
| Noncurrent assets: | | | |
| Other assets | 14,143 | - | - |
| Restricted assets (Notes 3 and 8) | 154,908 | 649,274 | - |
| Capital assets (Note 5): | | | |
| Non-depreciable capital assets | - | - | - |
| Depreciable capital assets - Net | 44,068,446 | 13,756,748 | 1,236 |
| Total noncurrent assets | 44,237,497 | 14,406,022 | 1,236 |
| Total assets | 45,955,372 | 14,972,324 | 2,228,307 |
| Liabilities | | | |
| Current liabilities: | | | |
| Current portion of long-term debt (Note 7) | 2,162,065 | 279,875 | - |
| Accounts payable | 96,838 | 92,810 | 56,371 |
| Accrued and other liabilities | 157,987 | 8,580 | 12,940 |
| Due to other funds | 300,196 | 1,133,913 | - |
| Total current liabilities | 2,717,086 | 1,515,178 | 69,311 |
| Current Liabilities Payable from Restricted Assets | 42,263 | 323,288 | - |
| Long-term Debt - Net of current portion (Note 7) | 19,772,454 | 10,350,986 | 9,903 |
| Total liabilities | 22,531,803 | 12,189,452 | 79,214 |
| Net Assets | | | |
| Invested in capital assets - Net of related debt | 22,227,914 | 2,954,708 | 1,236 |
| Restricted - Revenue bond ordinances | 112,646 | 325,987 | - |
| Unrestricted | 1,083,009 | (497,823) | 2,147,857 |
| Total net assets | \$ 23,423,569 | \$ 2,782,872 | \$ 2,149,093 |

**Proprietary Funds
Statement of Net Assets
June 30, 2004**

| Enterprise Funds | | | Governmental Activities |
|------------------------------|-------------------|---------------------------|-----------------------------|
| Automobile Parking System | Ice Arena | Total Enterprise Funds | Internal Service Fund |
| \$ 2,315,187 | \$ 260,788 | \$ 3,665,016 | \$ 446,565 |
| - | - | 450,000 | - |
| - | - | 16,379 | - |
| - | - | 1,643,112 | - |
| 44,202 | 4,649 | 53,100 | - |
| - | - | 1,213,327 | - |
| - | 60,805 | 155,945 | - |
| 2,359,389 | 326,242 | 7,196,879 | 446,565 |
| 99,329 | - | 113,472 | - |
| - | - | 804,182 | - |
| 4,766,406 | - | 4,766,406 | - |
| 1,357,453 | 4,008,961 | 63,192,844 | 674,621 |
| 6,223,188 | 4,008,961 | 68,876,904 | 674,621 |
| 8,582,577 | 4,335,203 | 76,073,783 | 1,121,186 |
| 75,000 | 225,000 | 2,741,940 | 29,000 |
| 421,348 | 101,241 | 768,608 | 38,200 |
| 156,851 | 94,944 | 431,302 | 942 |
| - | 338,121 | 1,772,230 | - |
| 653,199 | 759,306 | 5,714,080 | 68,142 |
| - | - | 365,551 | - |
| 5,137,618 | 3,350,001 | 38,620,962 | 231,958 |
| 5,790,817 | 4,109,307 | 44,700,593 | 300,100 |
| 2,056,859 | 433,960 | 27,674,677 | 413,663 |
| - | - | 438,633 | - |
| 734,901 | (208,064) | 3,259,880 | 407,423 |
| \$ 2,791,760 | \$ 225,896 | \$ 31,373,190 | \$ 821,086 |

City of Mount Clemens, Michigan

| | Enterprise Funds - Major Funds | | |
|---|--------------------------------|----------------------------|----------------------------|
| | Sewage Disposal | Water Supply System | Sanitary Department |
| Operating Revenue | | | |
| Customer billings | \$ 4,041,843 | \$ 2,022,304 | \$ 310,737 |
| Billings to other funds | - | - | - |
| Other revenue | <u>12,783</u> | <u>145,434</u> | <u>15,961</u> |
| Total operating revenue | 4,054,626 | 2,167,738 | 326,698 |
| Operating Expenses | | | |
| Cost of materials | 135,423 | 196,855 | 14,557 |
| Water supply and sewage disposal | 1,788,147 | 1,032,104 | - |
| Maintenance and operation | - | - | 742,269 |
| General and administrative | 715,051 | 402,900 | 100,646 |
| Depreciation | <u>1,699,167</u> | <u>468,704</u> | <u>387</u> |
| Total operating expenses | <u>4,337,788</u> | <u>2,100,563</u> | <u>857,859</u> |
| Operating Income (Loss) | (283,162) | 67,175 | (531,161) |
| Nonoperating Revenue (Expenses) | | | |
| Interest income | 1,669 | 8,140 | 18,594 |
| Property taxes | - | - | 185,587 |
| Interest expense | (792,984) | (303,870) | - |
| Gain on sale of assets | - | - | - |
| Other | <u>(36,313)</u> | <u>-</u> | <u>-</u> |
| Income (Loss) - Before transfers | (1,110,790) | (228,555) | (326,980) |
| Transfers In | 925,000 | - | - |
| Transfers Out | <u>-</u> | <u>-</u> | <u>(110,000)</u> |
| Net Change in Net Assets | (185,790) | (228,555) | (436,980) |
| Net Assets - Beginning of year | <u>23,609,359</u> | <u>3,011,427</u> | <u>2,586,073</u> |
| Net Assets - End of year | <u>\$ 23,423,569</u> | <u>\$ 2,782,872</u> | <u>\$ 2,149,093</u> |

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2004

| Enterprise Funds - Major Funds | | | Governmental Activities |
|--------------------------------|-------------------|---------------------------|-----------------------------|
| Automobile Parking System | Ice Arena | Total Enterprise Funds | Internal Service Fund |
| \$ 341,098 | \$ 1,854,694 | \$ 8,570,676 | \$ - |
| - | - | - | 642,320 |
| 782 | - | 174,960 | 7,199 |
| 341,880 | 1,854,694 | 8,745,636 | 649,519 |
| 18,625 | 151,241 | 516,701 | 167,078 |
| - | - | 2,820,251 | - |
| 218,751 | 1,226,322 | 2,187,342 | 321,701 |
| 60,000 | 43,135 | 1,321,732 | 79,597 |
| 139,108 | 172,679 | 2,480,045 | 161,761 |
| 436,484 | 1,593,377 | 9,326,071 | 730,137 |
| (94,604) | 261,317 | (580,435) | (80,618) |
| 42,072 | 1,099 | 71,574 | 4,209 |
| - | - | 185,587 | - |
| (196,272) | (201,884) | (1,495,010) | (12,355) |
| - | - | - | 1,932 |
| - | - | (36,313) | - |
| (248,804) | 60,532 | (1,854,597) | (86,832) |
| - | - | 925,000 | - |
| - | - | (110,000) | - |
| (248,804) | 60,532 | (1,039,597) | (86,832) |
| 3,040,564 | 165,364 | 32,412,787 | 907,918 |
| \$ 2,791,760 | \$ 225,896 | \$ 31,373,190 | \$ 821,086 |

City of Mount Clemens, Michigan

| | Enterprise Funds | | |
|---|---------------------|---------------------|---------------------|
| | Sewage Disposal | Water Supply System | Sanitary Department |
| Cash Flows from Operating Activities | | | |
| Receipts from customers and other funds | \$ 4,305,878 | \$ 1,995,485 | \$ 373,601 |
| Payments to suppliers and employees | (2,702,604) | (1,218,067) | (1,151,422) |
| Other receipts | 12,783 | 145,434 | 15,961 |
| Net cash provided by (used in) operating activities | 1,616,057 | 922,852 | (761,860) |
| Cash Flows from Noncapital Financing Activities | | | |
| Transfers out to other funds | - | - | (110,000) |
| Proceeds from property tax levy | - | - | 207,481 |
| Net cash provided by noncapital financing activities | - | - | 97,481 |
| Cash Flows from Capital and Related Financing Activities | | | |
| Purchase of capital assets | - | (145,935) | - |
| Proceeds from long-term debt | - | - | - |
| Transfers in from other funds | 925,000 | - | - |
| Bond issue costs | - | - | - |
| Principal and interest paid on long-term debt | (2,791,597) | (850,285) | - |
| Repayment of interfund borrowings | - | - | 1,500,000 |
| Net cash provided by (used in) capital and related financing activities | (1,866,597) | (996,220) | 1,500,000 |
| Cash Flows from Investing Activities | | | |
| Interest received on investments | 1,669 | 8,140 | 15,683 |
| Purchase of investments | - | - | (450,000) |
| Net cash provided by (used in) investing activities | 1,669 | 8,140 | (434,317) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (248,871) | (65,228) | 401,304 |
| Cash and Cash Equivalents - Beginning of year | 403,779 | 714,502 | 687,737 |
| Cash and Cash Equivalents - End of year | \$ 154,908 | \$ 649,274 | \$ 1,089,041 |
| Balance Sheet Classification of Cash and Cash Equivalents | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ 1,089,041 |
| Restricted assets (Note 8) | 154,908 | 649,274 | - |
| Total cash and cash equivalents | \$ 154,908 | \$ 649,274 | \$ 1,089,041 |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | |
| Operating income (loss) | \$ (283,162) | \$ 67,175 | \$ (531,161) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | |
| Depreciation and amortization | 1,699,167 | 468,704 | 387 |
| Changes in assets and liabilities: | | | |
| Receivables | 264,035 | (26,819) | 62,864 |
| Due from other funds | 102,443 | 102,443 | (261,506) |
| Inventories | - | 30,000 | - |
| Accounts payable | 12,835 | 27,633 | (18,536) |
| Due to other funds | (154,533) | 264,399 | (345) |
| Accrued and other liabilities | (24,728) | (10,683) | (13,563) |
| Net cash provided by (used in) operating activities | \$ 1,616,057 | \$ 922,852 | \$ (761,860) |

**Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2004**

| Enterprise Funds | | | Governmental Activities |
|------------------------------|-------------------|---------------------------|-----------------------------|
| Automobile Parking System | Ice Arena | Total Enterprise Funds | Internal Service Fund |
| \$ 304,415 | \$ 1,851,324 | \$ 8,830,703 | \$ 645,410 |
| (270,895) | (1,481,136) | (6,824,124) | (553,238) |
| 782 | - | 174,960 | 7,199 |
| 34,302 | 370,188 | 2,181,539 | 99,371 |
| - | - | (110,000) | - |
| - | - | 207,481 | - |
| - | - | 97,481 | - |
| (1,707,013) | (24,813) | (1,877,761) | (92,657) |
| 5,200,000 | - | 5,200,000 | - |
| - | - | 925,000 | - |
| (104,557) | - | (104,557) | - |
| (74,991) | (410,217) | (4,127,090) | (48,391) |
| (1,500,000) | - | - | - |
| 1,813,439 | (435,030) | 15,592 | (141,048) |
| 42,072 | 1,099 | 68,663 | 4,209 |
| - | - | (450,000) | - |
| 42,072 | 1,099 | (381,337) | 4,209 |
| 1,889,813 | (63,743) | 1,913,275 | (37,468) |
| 425,374 | 324,531 | 2,555,923 | 484,033 |
| \$ 2,315,187 | \$ 260,788 | \$ 4,469,198 | \$ 446,565 |
| \$ 2,315,187 | \$ 260,788 | \$ 3,665,016 | \$ 446,565 |
| - | - | 804,182 | - |
| \$ 2,315,187 | \$ 260,788 | \$ 4,469,198 | \$ 446,565 |
| \$ (94,604) | \$ 261,317 | \$ (580,435) | \$ (80,618) |
| 139,108 | 172,679 | 2,480,045 | 161,761 |
| (36,683) | (3,370) | 260,027 | 3,090 |
| - | - | (56,620) | - |
| - | (26,645) | 3,355 | - |
| (21,530) | 62,207 | 62,609 | 17,854 |
| - | (47,176) | 62,345 | - |
| 48,011 | (48,824) | (49,787) | (2,716) |
| \$ 34,302 | \$ 370,188 | \$ 2,181,539 | \$ 99,371 |

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

| | Pension and Other Employee Benefits Trust Fund - Employees' Retirement System | Agency Funds |
|--|---|--------------------------|
| Assets | | |
| Cash and cash equivalents (Note 3) | \$ 1,171,338 | \$ 340,585 |
| Investments (Note 3): | | |
| Common stock | 26,082,661 | - |
| U.S. Treasury notes | 3,050,868 | - |
| U.S. government agency securities | 7,546,330 | - |
| Corporate bonds | 11,851,032 | - |
| Mutual funds | 4,336,652 | - |
| Receivables - Accrued interest | 275,981 | - |
| | | |
| Total assets | 54,314,862 | <u><u>\$ 340,585</u></u> |
| Liabilities | | |
| Accounts payable | 75,210 | \$ - |
| Due to other governmental units | 1,600 | 52,202 |
| Cash bonds and deposits | - | 288,383 |
| | | |
| Total liabilities | 76,810 | <u><u>\$ 340,585</u></u> |
| Net Assets - Held in trust for pension and other employee benefits | <u><u>\$ 54,238,052</u></u> | |

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Employees' Retirement System Year Ended June 30, 2004

Additions

| | |
|---|------------------|
| Investment income: | |
| Interest and dividends | \$ 1,788,928 |
| Net increase in fair value of investments | 3,947,781 |
| Less investment expenses | <u>(224,293)</u> |
| Net investment income | 5,512,416 |
| Property taxes | 348,446 |
| Contributions: | |
| Employer | 594,888 |
| Employee | <u>361,023</u> |
| Total contributions | <u>955,911</u> |
| Total additions | 6,816,773 |

Deductions

| | |
|--------------------------|------------------|
| Benefit payments | 3,485,553 |
| Refunds of contributions | 392,091 |
| Administrative expenses | <u>35,119</u> |
| Total deductions | <u>3,912,763</u> |

Net Increase

2,904,010

Net Assets Held in Trust for Pension and Other Employee Benefits

| | |
|-------------------|-----------------------------|
| Beginning of year | <u>51,334,042</u> |
| End of year | <u><u>\$ 54,238,052</u></u> |

City of Mount Clemens, Michigan

Component Units Statement of Net Deficit June 30, 2004

| | Downtown Development Authority | Brownfield Redevelopment Authority | Totals |
|--|--------------------------------------|--|--------------------|
| Assets | | | |
| Cash and cash equivalents (Note 3) | \$ 276,383 | \$ - | \$ 276,383 |
| Taxes receivable | 1,789 | - | 1,789 |
| Total assets | 278,172 | - | 278,172 |
| Liabilities | | | |
| Accounts payable | 56,444 | - | 56,444 |
| Accrued and other liabilities | 669 | - | 669 |
| Due to primary government | - | 11,071 | 11,071 |
| Noncurrent liabilities (Note 7) - Due within one year | 275,000 | - | 275,000 |
| Total liabilities | 332,113 | 11,071 | 343,184 |
| Net Deficit - Unrestricted | \$ (53,941) | \$ (11,071) | \$ (65,012) |

City of Mount Clemens, Michigan

| | | Program Revenues | |
|--|-------------------|-------------------|--------------------------|
| | | Charges for | Operating |
| | Expenses | Services | Grants/ Contributions |
| Downtown Development Authority: | | | |
| Public works | \$ 437,589 | \$ 107,192 | \$ - |
| Interest on long-term debt | 10,760 | - | - |
| Total Downtown Development Authority | 448,349 | 107,192 | - |
| Brownfield Redevelopment Authority - | | | |
| General government | 5,679 | - | - |
| Total governmental activities | <u>\$ 454,028</u> | <u>\$ 107,192</u> | <u>\$ -</u> |
| General revenues: | | | |
| Property taxes | | | |
| Interest | | | |
| Total general revenues | | | |
| Change in Net Assets | | | |
| Net Deficit - Beginning of year | | | |
| Net Deficit - End of year | | | |

**Component Units
Statement of Activities
Year Ended June 30, 2004**

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|--|--------------------|
| Downtown Development Authority | Brownfield Redevelopment Authority | Total |
| \$ (330,397) | \$ - | \$ (330,397) |
| (10,760) | - | (10,760) |
| (341,157) | - | (341,157) |
| - | (5,679) | (5,679) |
| (341,157) | (5,679) | (346,836) |
| 606,257 | - | 606,257 |
| 1,493 | - | 1,493 |
| 607,750 | - | 607,750 |
| 266,593 | (5,679) | 260,914 |
| (320,534) | (5,392) | (325,926) |
| <u>\$ (53,941)</u> | <u>\$ (11,071)</u> | <u>\$ (65,012)</u> |

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Mount Clemens, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The following is a summary of the significant accounting policies used by the City of Mount Clemens, Michigan:

Reporting Entity

The City of Mount Clemens, Michigan is governed by an elected seven-member Commission. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Blended Component Unit - The Mount Clements Building Authority is governed by a Board that is appointed by the City Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 11 individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.

The Brownfield Redevelopment Finance Authority (BRFA) was created to facilitate the implementation of plans for the identification, treatment, and revitalization of environmentally distressed areas within the City designated as Brownfield Redevelopment Zones. The BRFA's Board of Directors, consisting of nine members, is selected by the City Commission. In addition, the BRFA's budget is subject to approval by the City Commission.

Financial statements for the DDA and BRFA can be obtained from the administrative offices at One Crocker Blvd., Mount Clemens, MI 48043.

The City has excluded the Mount Clemens Housing Commission from this report. Even though the City appoints the Housing Commission's directors, it does not have the ability to impose its will.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major Enterprise Funds:

Sewage Disposal System Fund - The Sewage Disposal System Fund accounts for the activities of the sewage collection and disposal system.

Water Supply System Fund - The Water Supply System Fund accounts for the activities of the water distribution system.

Note 1 - Summary of Significant Accounting Policies (Continued)

Sanitary Department Fund - The Sanitary Department Fund accounts for the City's garbage and rubbish disposal activities.

Automobile Parking System Fund - The Automobile Parking System Fund accounts for the City's metered on-street and parking lot activities.

Ice Arena Fund - The Ice Arena Fund accounts for the City's ice arena operations.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Pension and Other Employee Benefits Trust Fund - The Employees' Retirement System Pension accounts for the accumulation of resources for pension benefit payments to substantially all City employees.

Agency Funds - Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is susceptible to accrual - that is, when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, State-shared revenue, and interest are all considered to be susceptible to accrual.

Note 1 - Summary of Significant Accounting Policies (Continued)

All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absence expenditures are recorded only when payment is due.

Proprietary funds distinguish between operating revenue and expenses and nonoperating items. Operating revenue and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued on or before November 30, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 to its business-type activities and Enterprise Funds.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds within the governmental and business-type activities columns are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2003 ad valorem tax is levied and collectible on July 1, 2003, and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2003 taxable valuation of the City totaled approximately \$372 million, on which ad valorem taxes levied consisted of 14.18670 mills for operating purposes, 3.02750 mills for debt service, 0.50000 mills for sanitation, 0.94560 mills for Police and Fire Pension, and 0.94560 for Dial-A-Ride services. Net of tax capture by the Downtown Development Authority, the tax levies resulted in approximately \$5.2 million for operating purposes, \$1.1 million for debt service, \$186,000 for sanitation, \$350,000 for Police and Fire Pension, and \$350,000 for Dial-A-Ride services. These amounts are recognized in the respective General, Special Revenue, Debt Service, Enterprise, and Fiduciary Funds financial statements as tax revenue.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets - Outstanding bonds in the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water supply and sewage disposal systems, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Assets are depreciated using the straight-line method over the following useful lives:

| | |
|------------------------------|----------------|
| Roads and bridges | 25 to 40 years |
| Sidewalks | 20 years |
| Buildings and improvements | 40 to 50 years |
| Land improvements | 10 to 20 years |
| Machinery and equipment | 5 to 15 years |
| Plant facilities | 50 to 66 years |
| Production facilities | 20 to 66 years |
| Transmission facilities | 50 years |
| Tunnels and retention basins | 50 years |

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as they come due for payment, generally when there are employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts and the deferred amount on refundings are deferred and amortized over the life of the bonds. Bonds payable are reported net of these amounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue and Debt Service Funds. All annual appropriations lapse at fiscal year end.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Prior to the first regular City Commission meeting in April, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to the third Monday in May.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Commission.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Deficits - The Downtown Development Authority (DDA), a discretely presented component unit, has negative net assets at June 30, 2004 because of the reporting of the bond payable obligation. The funds of the DDA, presented on a modified accrual basis, have positive fund balances at June 30, 2004.

The Brownfield Redevelopment Authority, a discretely presented component unit, has negative net assets and an accumulated fund deficit at June 30, 2004. The deficits will be eliminated during the year ending June 30, 2005 through the collection of grant proceeds.

The Drug Law Enforcement Special Revenue Fund has an accumulated fund deficit of \$1,039 at June 30, 2004. The deficit will be eliminated during the year ending June 30, 2005 through the drug forfeiture collections.

Noncompliance with Legal or Contractual Provisions - At June 30, 2004, the City was not in compliance with the provisions of the Sewage Disposal and Water Supply revenue bond covenants that require cash and cash equivalents to be accumulated in a restricted account (see Note 8 for further disclosure).

Note 2 - Stewardship, Compliance, and Accountability (Continued)

State Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation, to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2004 is as follows:

| | | |
|--------------------------------------|---------------|----------------------------|
| Cumulative shortfall - July 1, 2003 | | \$ (577,105) |
| Building permit revenue | | 402,273 |
| Related expenditures: | | |
| Direct costs | \$ 362,513 | |
| Estimated indirect costs | <u>36,251</u> | |
| Total construction code expenses | | <u>398,764</u> |
| Excess of revenue over expenditures | | <u>3,509</u> |
| Cumulative shortfall - June 30, 2004 | | <u><u>\$ (573,596)</u></u> |

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with the statutory authority.

The Employees' Retirement System Fiduciary Fund is authorized by P.A. 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain State and local government obligations, and other specified investment vehicles.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At June 30, 2004, the deposits and investments were reported in the basic financial statements in the following categories:

| | Governmental Activities | Business-type Activities | Total Primary Government | Fiduciary Funds | Component Units |
|---------------------------|----------------------------|-----------------------------|-----------------------------|----------------------|--------------------|
| Cash and cash equivalents | \$ 5,146,541 | \$ 3,665,016 | \$ 8,811,557 | \$ 1,511,923 | \$ 276,383 |
| Investments | 250,000 | 450,000 | 700,000 | 52,867,543 | - |
| Restricted assets | - | 804,182 | 804,182 | - | - |
| Total | <u>\$ 5,396,541</u> | <u>\$ 4,919,198</u> | <u>\$ 10,315,739</u> | <u>\$ 54,379,466</u> | <u>\$ 276,383</u> |

Deposits and investments are classified in accordance with GASB Statement No. 3 as follows:

| | Primary Government | Fiduciary Funds | Component Units |
|--|-----------------------|----------------------|--------------------|
| Bank deposits (checking accounts, savings accounts, and certificates of deposit) | \$ 8,069,465 | \$ 1,511,923 | \$ 276,383 |
| Investments in securities, mutual funds, and similar vehicles | 2,244,309 | 52,867,543 | - |
| Petty cash or cash on hand | 1,965 | - | - |
| Total | <u>\$ 10,315,739</u> | <u>\$ 54,379,466</u> | <u>\$ 276,383</u> |

Deposits - All deposits are held in the name of the City. The City's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$8,863,000. Of that amount, approximately \$300,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which funds are deposited and assesses the level of risk of each institution; only those institutions with an acceptable level of risk are used as depositories.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

Investments - Investments are categorized into these three categories of credit risk, as follows:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At June 30, 2004, the City's investments were categorized as follows:

| | Category | | | Reported Amount (Fair Value) |
|---|-------------|-------------|----------------------|------------------------------------|
| | 1 | 2 | 3 | |
| Primary government: | | | | |
| Negotiable certificates of deposit | \$ - | \$ - | \$ 700,000 | \$ 700,000 |
| Investments not subject to categorization - Mutual funds | - | - | - | 1,544,309 |
| Total primary government | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,244,309</u> |
| Fiduciary funds: | | | | |
| Common stock | \$ - | \$ - | \$ 26,082,661 | \$ 26,082,661 |
| U.S. Treasury notes | - | - | 3,050,868 | 3,050,868 |
| U.S. government agency securities | - | - | 7,546,330 | 7,546,330 |
| Corporate bonds | - | - | 11,851,032 | 11,851,032 |
| Investments not subject to categorization - Mutual funds | - | - | - | 4,336,652 |
| Total fiduciary funds | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 48,530,891</u> | <u>\$ 52,867,543</u> |

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

Included in the City's fiduciary fund investments at June 30, 2004 are the following securities:

- Approximately \$7,546,000 of securities issued by the Governmental National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). The GNMA investments are backed by the full faith and credit of the U.S. government, whereas the FNMA and FHLMC investments are backed only by the applicable government agency. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Asset-backed securities of approximately \$1,555,000. These securities are backed by credit card or other receivables and typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment of these "pay-through" securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Receivables and Deferred Revenue

The following is the detail of the receivables of the governmental activities due from other governmental units at June 30, 2004:

| | General Fund | Other Nonmajor Funds | Total |
|-------------------|-------------------|----------------------------|---------------------|
| State of Michigan | \$ 698,178 | \$ 182,497 | \$ 880,675 |
| Other | 199,040 | 4,904 | 203,944 |
| Total | <u>\$ 897,218</u> | <u>\$ 187,401</u> | <u>\$ 1,084,619</u> |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Receivables and Deferred Revenue (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | Unavailable | Unearned |
|---|-------------------|-----------------|
| Special assessments | \$ 232,018 | \$ - |
| Grant payments received prior to meeting all eligibility requirements | - | 7,657 |
| Total | <u>\$ 232,018</u> | <u>\$ 7,657</u> |

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows for the year ended June 30, 2004:

| | Balance July 1, 2003 | Additions | Disposals and Adjustments | Balance June 30, 2004 |
|--|-------------------------|---------------------|------------------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated - | | | | |
| Land | \$ 2,791,978 | \$ - | \$ - | \$ 2,791,978 |
| Capital assets being depreciated: | | | | |
| Roads and bridges | 8,929,463 | - | - | 8,929,463 |
| Sidewalks | 1,758,592 | - | - | 1,758,592 |
| Buildings and improvements | 2,749,543 | 59,105 | - | 2,808,648 |
| Land improvements | 2,628,789 | 101,276 | - | 2,730,065 |
| Machinery and equipment | 4,740,565 | 125,552 | 10,478 | 4,855,639 |
| Subtotal | 20,806,952 | 285,933 | 10,478 | 21,082,407 |
| Accumulated depreciation: | | | | |
| Roads and bridges | 2,895,067 | 346,602 | - | 3,241,669 |
| Sidewalks | 929,303 | 98,969 | - | 1,028,272 |
| Buildings and improvements | 1,757,045 | 55,050 | - | 1,812,095 |
| Land improvements | 1,779,782 | 126,896 | - | 1,906,678 |
| Machinery and equipment | 2,962,793 | 350,212 | 10,478 | 3,302,527 |
| Subtotal | 10,323,990 | 977,729 | 10,478 | 11,291,241 |
| Net capital assets being depreciated | 10,482,962 | (691,796) | - | 9,791,166 |
| Net capital assets | <u>\$ 13,274,940</u> | <u>\$ (691,796)</u> | <u>\$ -</u> | <u>\$ 12,583,144</u> |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

| Business-type Activities | Balance July 1, 2003 | Additions | Disposals and Adjustments | Balance June 30, 2004 |
|---------------------------------------|-------------------------|------------|------------------------------|--------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,706,362 | \$ - | \$ - | \$ 3,706,362 |
| Construction in progress | 336,291 | 1,060,044 | 336,291 | 1,060,044 |
| Subtotal | 4,042,653 | 1,060,044 | 336,291 | 4,766,406 |
| Capital assets being depreciated: | | | | |
| Plant facilities | 23,499,193 | - | - | 23,499,193 |
| Production facilities | 6,380,759 | - | - | 6,380,759 |
| Transmission facilities | 14,533,117 | - | - | 14,533,117 |
| Tunnels and retention basins | 37,929,475 | - | - | 37,929,475 |
| Machinery and equipment | 7,780,021 | 442,203 | - | 8,222,224 |
| Land improvements | 2,150,435 | 1,108,813 | - | 3,259,248 |
| Subtotal | 92,273,000 | 1,551,016 | - | 93,824,016 |
| Accumulated depreciation: | | | | |
| Plant facilities | 6,718,059 | 403,445 | - | 7,121,504 |
| Production facilities | 3,285,187 | 111,638 | - | 3,396,825 |
| Transmission facilities | 3,500,467 | 338,568 | - | 3,839,035 |
| Tunnels and retention basins | 8,041,019 | 701,050 | - | 8,742,069 |
| Machinery and equipment | 4,605,830 | 783,146 | - | 5,388,976 |
| Land improvements | 2,000,565 | 142,198 | - | 2,142,763 |
| Subtotal | 28,151,127 | 2,480,045 | - | 30,631,172 |
| Net capital assets being depreciated | 64,121,873 | (929,029) | - | 63,192,844 |
| Net capital assets | \$ 68,164,526 | \$ 131,015 | \$ 336,291 | \$ 67,959,250 |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

| | |
|------------------------|---------------|
| General government | \$ 276,674 |
| Public safety | 159,138 |
| Public works | 472,050 |
| Recreation and culture | <u>69,867</u> |

| | |
|-------------------------------|--------------------------|
| Total governmental activities | <u><u>\$ 977,729</u></u> |
|-------------------------------|--------------------------|

Business-type activities:

| | |
|---------------------------|----------------|
| Sewage Disposal | \$ 1,699,167 |
| Water Supply System | 468,704 |
| Sanitary Department | 387 |
| Automobile Parking System | 139,108 |
| Ice Arena | <u>172,679</u> |

| | |
|--------------------------------|----------------------------|
| Total business-type activities | <u><u>\$ 2,480,045</u></u> |
|--------------------------------|----------------------------|

Construction Commitments - The City has one active construction project at year end related to the improvement of a City parking lot. At year end, the City had spent \$706,261 to date on its commitments with contractors and had \$983,996 remaining commitment related to the parking lot improvement.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows at June 30, 2004:

| Receivable Fund | Payable Fund | Amount |
|--------------------------------|--------------------------|----------------------------|
| General Fund | Sewage Disposal Fund | \$ 259,903 |
| | Water Supply System Fund | 160,000 |
| | Ice Arena Fund | 100,000 |
| | Other governmental funds | <u>1,039</u> |
| Total General Fund | | 520,942 |
| Sewage Disposal Fund | Water Supply System Fund | 626,231 |
| Sanitary Department Fund | Water Supply System Fund | 308,682 |
| | Sewage Disposal Fund | 40,293 |
| | Ice Arena Fund | <u>238,121</u> |
| Total Sanitary Department Fund | | 587,096 |
| Other governmental funds | Water Supply System Fund | <u>39,000</u> |
| Total | | <u><u>\$ 1,773,269</u></u> |

Interfund balances result primarily from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The details of the interfund transfers for the year ended June 30, 2004 are as follows:

| Funds Transferred From | Funds Transferred To | Amount |
|--------------------------------|--------------------------|----------------------------|
| Sanitary Department Fund | Other governmental funds | \$ 110,000 |
| Other governmental funds | Sewage Disposal Fund | 925,000 (1) |
| | Other governmental funds | <u>260,950 (2)</u> |
| Total other governmental funds | | <u>1,185,950</u> |
| Total | | <u><u>\$ 1,295,950</u></u> |

(1) Transfer of debt service levy for payment of Unlimited Tax General Obligation Bonds.

(2) Transfer of funds for debt service (\$110,950) and transfer of Act 51 revenue-sharing payments from Major Streets Fund to Local Streets Fund as permitted by State law.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------|-------------------|---------------------|------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds: | | | | | |
| 1973 Sewer System Bonds | \$ 175,000 | \$ - | \$ 175,000 | \$ - | \$ - |
| 1978 Sewer System Bonds | 45,000 | - | 45,000 | - | - |
| 1992 Michigan Transportation Bonds | 150,000 | - | 25,000 | 125,000 | 25,000 |
| 1994 Michigan Transportation Bonds | 75,000 | - | 75,000 | - | - |
| Installment Purchase Agreements: | | | | | |
| Fire pumper | 262,124 | - | 27,742 | 234,382 | 29,000 |
| Compaq computers | 66,958 | - | 53,035 | 13,923 | 13,923 |
| Police equipment | 125,289 | - | 61,077 | 64,212 | 14,748 |
| District Court computers | 37,671 | - | 15,219 | 22,452 | 17,518 |
| Special Assessment Obligations: | | | | | |
| 1999 Road Improvement Bonds | 455,000 | - | 100,000 | 355,000 | 100,000 |
| 1999 B Road Improvement Bonds | 500,000 | - | 75,000 | 425,000 | 75,000 |
| Long-term portion of accrued sick and vacation liability | 1,298,050 | - | 183,666 | 1,114,384 | 350,000 |
| Total governmental activities | <u>\$ 3,190,092</u> | <u>\$ -</u> | <u>\$ 835,739</u> | <u>\$ 2,354,353</u> | <u>\$ 625,189</u> |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|---------------------|---------------------|----------------------|------------------------|
| Business-type Activities | | | | | |
| General Obligation Bonds: | | | | | |
| 1986 Wastewater Treatment Facility Bonds - Net of unamortized discount | \$ 2,881,383 | \$ 7,447 | \$ - | \$ 2,888,830 | \$ - |
| 1993 Wastewater Refunding Bonds - Net of unamortized discount and deferred charges | 2,323,346 | 97,765 | 1,200,000 | 1,221,111 | 1,270,000 |
| Combined Sewer Overflow State Revolving Fund Debt: | | | | | |
| 1998A Sewage Disposal System Bonds | 4,655,000 | - | 225,000 | 4,430,000 | 230,000 |
| 1998A-2 Sewage Disposal System Bonds | 3,863,659 | - | 189,701 | 3,673,958 | 194,565 |
| 1999A Sewage Disposal System Bonds | 7,235,000 | - | 345,000 | 6,890,000 | 355,000 |
| 1998 B Sewage Disposal System Bonds | 1,650,000 | - | 75,000 | 1,575,000 | 75,000 |
| 1999 B Sewage Disposal System Bonds | 890,000 | - | 25,000 | 865,000 | 25,000 |
| 2001 Ice Arena Building Authority Refunding Bonds - Net of unamortized deferred charges | 3,783,334 | 16,667 | 225,000 | 3,575,001 | 225,000 |
| 2003 Parking Improvement Bonds | - | 5,200,000 | - | 5,200,000 | 75,000 |
| Revenue Obligations: | | | | | |
| 1992 Sanitary Sewage Disposal System Bonds - Net of unamortized discount | 346,007 | 666 | 50,000 | 296,673 | 50,000 |
| 1994 Water Bonds | 35,000 | - | 35,000 | - | - |
| 1998B Water Supply System Revenue Bonds | 750,000 | - | 25,000 | 725,000 | 25,000 |
| Drinking Water State Revolving Fund Debt: | | | | | |
| 1998A Water Supply System Revenue Bonds | 750,000 | - | 35,000 | 715,000 | 35,000 |
| 1998A-2 Water Supply System Revenue Bonds | 1,756,500 | - | 84,500 | 1,672,000 | 89,500 |
| 1999A Water Supply System Revenue Bonds | 4,260,000 | - | 205,000 | 4,055,000 | 210,000 |
| 2000A Water Supply System Revenue Bonds | 1,805,000 | - | 80,000 | 1,725,000 | 85,000 |
| 2000A-2 Water Supply System Revenue Bonds | 1,995,000 | - | 85,000 | 1,910,000 | 85,000 |
| Long-term portion of accrued sick and vacation liability | 200,864 | 31,590 | - | 232,454 | - |
| Total business-type activities | <u>\$ 39,180,093</u> | <u>\$ 5,354,135</u> | <u>\$ 2,884,201</u> | <u>\$ 41,650,027</u> | <u>\$ 3,029,065</u> |
| Component Units - 1991 General Obligation | | | | | |
| Downtown Development Bonds | <u>\$ 550,000</u> | <u>\$ -</u> | <u>\$ 275,000</u> | <u>\$ 275,000</u> | <u>\$ 275,000</u> |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity (excluding amortization of discounts and deferred charges) for the above bond and note obligations are as follows:

| | Governmental Activities | | | Business-type Activities | | | Component Units | | |
|-----------|-------------------------|------------|--------------|--------------------------|---------------|---------------|-----------------|----------|------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2005 | \$ 275,189 | \$ 52,997 | \$ 328,186 | \$ 3,029,065 | \$ 1,312,012 | \$ 4,341,077 | \$ 275,000 | \$ 6,188 | \$ 281,188 |
| 2006 | 285,164 | 39,438 | 324,602 | 3,233,929 | 1,195,438 | 4,429,367 | - | - | - |
| 2007 | 211,984 | 26,850 | 238,834 | 3,423,293 | 1,075,534 | 4,498,827 | - | - | - |
| 2008 | 233,471 | 15,656 | 249,127 | 2,003,157 | 987,444 | 2,990,601 | - | - | - |
| 2009-2013 | 234,161 | 11,055 | 245,216 | 11,141,750 | 3,942,072 | 15,083,822 | - | - | - |
| 2014-2018 | - | - | - | 12,327,580 | 2,073,743 | 14,401,323 | - | - | - |
| 2019-2023 | - | - | - | 6,072,184 | 475,791 | 6,547,975 | - | - | - |
| 2024 | - | - | - | 450,000 | 10,238 | 460,238 | - | - | - |
| Total | \$ 1,239,969 | \$ 145,996 | \$ 1,385,965 | \$ 41,680,958 | \$ 11,072,272 | \$ 52,753,230 | \$ 275,000 | \$ 6,188 | \$ 281,188 |

Advance Refundings - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2004, \$3,650,000 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

In accordance with revenue bond provisions, assets of the Sewage Disposal Fund and Water Supply System Fund have been restricted for the funding of required reserves. The following is a summary of restricted assets at June 30, 2004:

| | Sewage Disposal Fund | Water Supply System Fund |
|--|-------------------------|-----------------------------|
| Revenue bond requirements: | | |
| Operation and maintenance | \$ 652,717 | \$ 148,020 |
| Bond reserve | 75,500 | 846,056 |
| Debt service: | | |
| Principal | 37,500 | 249,625 |
| Interest | 4,763 | 73,663 |
| Total requirements | 770,480 | 1,317,364 |
| Shortfall at June 30, 2004 | (615,572) | (668,090) |
| Restricted assets - June 30, 2004 | 154,908 | 649,274 |
| Current liabilities payable from restricted assets | (42,263) | (323,288) |
| Net assets restricted for Revenue Bond ordinances | \$ 112,645 | \$ 325,986 |

Note 8 -

Restricted Assets (Continued)

At June 30, 2004, the City was not in compliance with the provisions of the Sanitary Sewage Disposal System Revenue Bond and Water Supply Revenue Bond covenants that require cash and cash equivalents to be accumulated in a restricted account. The City has adjusted water and sewer rates for fiscal year 2005 in order to accumulate cash reserves to correct this deficiency.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health and general liability claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan

Plan Description - The City of Mount Clemens Employees' Retirement System is the administrator of a single-employer defined benefit pension plan that covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 178 retirees and beneficiaries currently receiving benefits, 13 terminated employees entitled to benefits but not yet receiving them, and 151 current active employees. The plan does not issue a separate financial report.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Note 10 - Defined Benefit Pension Plan (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution of 3 percent from police employees, 6.55 percent from fire employees, 1 percent from dispatchers, court employees, and nonbargaining clerical employees, and 5.3 percent from other general employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Costs - For the year ended June 30, 2004, the City's annual pension cost of \$943,334 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002 using the entry age actuarial funding method. Significant actuarial assumptions used include: (a) a 7.5 investment rate of return; (b) projected salary increases of 5 percent to 28.6 percent per year; and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis for general employees and on a closed basis for police and fire employees. The remaining amortization period is 12 years for general employees and 19 years for police and fire employees.

Reserves - As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

| | |
|--------------------------------------|---------------|
| Reserve for employees' contributions | \$ 19,040,656 |
| Reserve for retired benefit payments | 32,575,490 |

Three-year Trend Information

| | Fiscal Year June 30 | | |
|-------------------------------|---------------------|------------|------------|
| | 2004 | 2003 | 2002 |
| Annual pension costs (APC) | \$ 943,334 | \$ 631,831 | \$ 479,340 |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |

Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 171 retirees are eligible. The City includes pre-Medicare retirees in its insured health care plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,453,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 12 - Designated Fund Balance

Fund balance in the General Fund at June 30, 2004 has been designated for the following purposes:

| | |
|-------------------------------|---------------------|
| Sick and vacation liabilities | \$ 750,000 |
| Postemployment benefits | 900,000 |
| Insurance deductibles | 100,000 |
| Property tax adjustments | <u>290,000</u> |
| Total | <u>\$ 2,040,000</u> |

Note 13 - Joint Venture

The City is a member of the Grosse Pointes-Clinton Refuse Disposal Authority (the "Authority") joint venture, which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Park, Grosse Pointe Farms, Grosse Pointe, Grosse Pointe Woods, Harper Woods, the Village of Grosse Pointe Shores, and the Township of Clinton. The City Commission appoints one member to the Authority's governing board, which then approves its annual budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of the costs.

The City's interest in the net assets of the Authority totaled \$314,248 at June 30, 2004 and is reported as part of the governmental activities in the statement of net assets. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from their administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

Required Supplemental Information

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|--------------------|-------------------|-------------------|------------------------------------|
| Revenues | | | | |
| Current taxes | \$ 5,310,720 | \$ 5,232,750 | \$ 5,233,222 | \$ 472 |
| Payment in lieu of taxes | 40,000 | 40,000 | 41,612 | 1,612 |
| Penalties and interest on delinquent taxes | 38,000 | 38,000 | 40,509 | 2,509 |
| Business licenses and permits | 61,000 | 69,500 | 65,284 | (4,216) |
| Nonbusiness licenses and permits | 293,700 | 478,500 | 459,083 | (19,417) |
| State-shared taxes | 2,314,800 | 2,141,800 | 2,153,925 | 12,125 |
| Grants | 42,500 | 22,000 | 25,648 | 3,648 |
| Charges, services, and fees | 314,900 | 326,900 | 321,426 | (5,474) |
| Charges for services rendered | 565,000 | 565,000 | 560,000 | (5,000) |
| Charges for services and sales | 21,500 | 19,500 | 21,267 | 1,767 |
| Use and admission fees | 20,000 | 3,000 | 11,265 | 8,265 |
| Fines, forfeitures, and probation screening fees - 41st District Court | 1,800,000 | 1,580,000 | 1,586,754 | 6,754 |
| Interest earnings | 60,000 | 25,225 | 27,286 | 2,061 |
| Rents and royalties | 24,000 | 34,000 | 30,551 | (3,449) |
| Cable TV | 145,000 | 160,000 | 164,209 | 4,209 |
| Reimbursements: | | | | |
| Fringe benefits | 140,000 | 150,000 | 167,424 | 17,424 |
| Police protection | 80,000 | 50,000 | 27,447 | (22,553) |
| Refunds | 20,000 | 125,000 | 124,042 | (958) |
| Recreation program fees | - | 967 | 966 | (1) |
| Judges' salary standardization | 91,448 | 91,448 | 91,448 | - |
| Proceeds from sale of assets | 200 | - | - | - |
| Miscellaneous | 200,500 | 186,950 | 189,883 | 2,933 |
| Federal grant revenue | 272,594 | 219,680 | 108,154 | (111,526) |
| Total revenues | 11,855,862 | 11,560,220 | 11,451,405 | (108,815) |

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|------------------------------------|--------------------|-------------------|-----------|------------------------------------|
| Expenditures | | | | |
| General government: | | | | |
| City Commission | \$ 6,900 | \$ 6,900 | \$ 6,900 | \$ - |
| 41st District Court | 1,301,214 | 1,273,948 | 1,175,012 | 98,936 |
| City Administrator | 364,796 | 218,470 | 208,427 | 10,043 |
| Elections | 44,141 | 33,250 | 33,315 | (65) |
| Legal services | 245,500 | 192,000 | 171,470 | 20,530 |
| Auditing services | 55,000 | 63,100 | 63,100 | - |
| Personnel | 65,467 | 133,066 | 127,321 | 5,745 |
| Community promotions | 19,850 | 15,200 | 7,360 | 7,840 |
| Telephone | 60,000 | 62,000 | 68,869 | (6,869) |
| Retirement system | | | | |
| Assessor | 185,440 | 176,360 | 174,628 | 1,732 |
| Controller | 80,475 | 79,985 | 78,988 | 997 |
| Accounting | 113,650 | 83,700 | 76,747 | 6,953 |
| Treasurer | 96,350 | 118,940 | 117,966 | 974 |
| City Clerk | 101,545 | 114,975 | 98,410 | 16,565 |
| Purchasing | 191,550 | 179,775 | 153,272 | 26,503 |
| Planning services | 40,110 | 105,665 | 102,305 | 3,360 |
| Maintenance of municipal buildings | 161,636 | 170,905 | 161,181 | 9,724 |
| Data processing | 140,500 | 143,500 | 136,615 | 6,885 |
| Cable television | 150,200 | 150,200 | 150,200 | - |
| Property tax refunds | 1,000 | 8,100 | 8,351 | (251) |
| Total general government | 3,425,324 | 3,330,039 | 3,120,437 | 209,602 |
| Public safety: | | | | |
| Police | 2,781,382 | 2,921,010 | 2,893,731 | 27,279 |
| Auxiliary policemen | 1,400 | 200 | - | 200 |
| Dispatch center | 163,983 | 190,275 | 197,319 | (7,044) |
| Fire | 1,079,100 | 1,361,350 | 1,323,933 | 37,417 |
| Volunteer firemen | 36,000 | 56,300 | 54,716 | 1,584 |
| Inspection | 240,090 | 354,700 | 362,513 | (7,813) |
| Dog warden | 18,165 | 21,335 | 20,150 | 1,185 |
| Total public safety | 4,320,120 | 4,905,170 | 4,852,362 | 52,808 |
| Public works: | | | | |
| Engineering | 40,300 | 40,300 | 45,742 | (5,442) |
| Supervision and overhead | 64,623 | 109,445 | 91,443 | 18,002 |
| Alleys | 14,789 | 13,283 | 11,187 | 2,096 |
| Street lighting | 255,000 | 250,000 | 255,605 | (5,605) |
| Sewage services | 2,000 | 2,500 | 2,677 | (177) |
| Community Development Block Grant | 151,994 | 100,000 | 52,482 | 47,518 |
| Miscellaneous | 94,003 | 98,023 | 89,685 | 8,338 |
| Total public works | 622,709 | 613,551 | 548,821 | 64,730 |

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|------------------------------------|
| Expenditures (Continued) | | | | |
| Recreation: | | | | |
| Parks and stadium | \$ 206,440 | \$ 218,995 | \$ 218,341 | \$ 654 |
| Programs | 71,500 | 125,030 | 68,459 | 56,571 |
| Art center | 1,000 | 5,300 | 5,258 | 42 |
| Total recreation | 278,940 | 349,325 | 292,058 | 57,267 |
| Other functions: | | | | |
| Insurance and pension | 3,152,249 | 3,348,915 | 3,354,456 | (5,541) |
| Land acquisitions and building improvements | - | 104,300 | 79,103 | 25,197 |
| Total other functions | 3,152,249 | 3,453,215 | 3,433,559 | 19,656 |
| Total expenditures | 11,799,342 | 12,651,300 | 12,247,237 | 404,063 |
| Excess of Revenue Over (Under) | | | | |
| Expenditures | 56,520 | (1,091,080) | (795,832) | 295,248 |
| Fund Balance - Beginning of year | 3,038,500 | 3,044,845 | 3,044,845 | - |
| Fund Balance - End of year | <u>\$ 3,095,020</u> | <u>\$ 1,953,765</u> | <u>\$ 2,249,013</u> | <u>\$ 295,248</u> |

City of Mount Clemens, Michigan

Required Supplemental Information Retirement System Schedules of Funding Progress and Employer Contributions June 30, 2004

The schedule of funding progress is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|---------------------------------|------------------------------------|---------------------------|--|
| 06/30/98 | \$ 47,407,612 | \$ 41,357,946 | \$ (6,049,666) | 114.6 | \$ 6,684,389 | (90.5) |
| 06/30/99 | 51,630,162 | 45,608,646 | (6,021,516) | 113.2 | 6,937,480 | (86.8) |
| 06/30/00 | 53,868,318 | 48,505,140 | (5,363,178) | 111.1 | 7,364,395 | (72.8) |
| 06/30/01 | 55,197,296 | 50,112,203 | (5,085,093) | 110.1 | 7,378,819 | (68.9) |
| 06/30/02 | 54,600,760 | 52,194,132 | (2,406,628) | 104.6 | 7,655,789 | (31.4) |
| 06/30/03 | 52,848,178 | 53,369,616 | 521,438 | 99.0 | 7,387,300 | 7.1 |

The schedule of employer contributions is as follows:

| Year Ended June 30 | Contribution Rates as a Percentage of Valuation Payroll | | Annual Required Contribution | |
|--------------------|--|------------------------------|---------------------------------|---------------------------|
| | General Employees | Police and Fire Employees | Based on Actual Payroll | Percentage Contributed |
| 1999 | - | 15.73 | \$ 479,157 | 100 |
| 2000 | - | 13.65 | 437,244 | 100 |
| 2001 | - | 14.03 | 454,216 | 100 |
| 2002 | - | 14.27 | 479,340 | 100 |
| 2003 | 1.77 | 16.27 | 631,831 | 100 |
| 2004 | 6.38 | 19.30 | 943,334 | 100 |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation, follows:

| | |
|-------------------------------|---|
| Actuarial cost method | Individual entry age normal cost |
| Amortization method | Level percent of payroll, open and closed periods |
| Remaining amortization period | General employees: Amendments - 21 years closed All others - 12 years open Police and Fire employees - 19 years closed |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return* | 7.5% |
| Projected salary increases* | 5.0%-28.6% |
| *Includes inflation at | 5% |
| Cost of living adjustments | None |

Other Supplemental Information

City of Mount Clemens, Michigan

| | Special Revenue Funds | | | | | | |
|--|---------------------------------|-------------------|-------------------|-------------------------|-----------------------|----------------------------|--------------------------|
| | Major Streets and Trunklines | Local Streets | Dial-A-Ride | Drug Law Enforcement | Public Improvement | District Court Building | Total Special Revenue |
| Assets | | | | | | | |
| Cash and investments | \$ 867,736 | \$ 300,120 | \$ 507,507 | \$ - | \$ 66,359 | \$ 924,969 | \$ 2,666,691 |
| Receivables: | | | | | | | |
| Taxes | - | - | 11,717 | - | - | - | 11,717 |
| Special assessments | - | - | - | - | - | - | - |
| Other governmental units | 136,502 | 45,995 | 4,904 | - | - | - | 187,401 |
| Accrued interest and other | - | - | 4,618 | - | 7,852 | - | 12,470 |
| Due from other funds | - | - | - | - | - | - | - |
| Total assets | \$ 1,004,238 | \$ 346,115 | \$ 528,746 | \$ - | \$ 74,211 | \$ 924,969 | \$ 2,878,279 |
| Liabilities and Fund Balances (Deficit) | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ 49,745 | \$ 23,704 | \$ 793 | \$ - | \$ 3,295 | \$ 110 | \$ 77,647 |
| Accrued and other liabilities | 2,624 | 2,304 | 6,646 | - | - | - | 11,574 |
| Deferred revenue | - | - | - | - | - | - | - |
| Due to other funds | - | - | - | 1,039 | - | - | 1,039 |
| Due to other governmental units | - | - | 1,600 | - | - | - | 1,600 |
| Total liabilities | 52,369 | 26,008 | 9,039 | 1,039 | 3,295 | 110 | 91,860 |
| Fund Balances (Deficit) | | | | | | | |
| Reserved for debt service | - | - | - | - | - | - | - |
| Unreserved | 951,869 | 320,107 | 519,707 | (1,039) | 70,916 | 924,859 | 2,786,419 |
| Total fund balances (deficit) | 951,869 | 320,107 | 519,707 | (1,039) | 70,916 | 924,859 | 2,786,419 |
| Total liabilities and fund balances (deficit) | \$ 1,004,238 | \$ 346,115 | \$ 528,746 | \$ - | \$ 74,211 | \$ 924,969 | \$ 2,878,279 |

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

| Debt Service Funds | | | |
|--------------------------------|-----------------------------------|-----------------------|--|
| General Obligation Bonds | Non-Voted Debt Service Fund | Total Debt Service | Total Nonmajor Governmental Funds |
| \$ 258,006 | \$ 795,070 | \$ 1,053,076 | \$ 3,719,767 |
| 27,940 | - | 27,940 | 39,657 |
| - | 232,018 | 232,018 | 232,018 |
| - | - | - | 187,401 |
| - | - | - | 12,470 |
| - | 39,000 | 39,000 | 39,000 |
| \$ 285,946 | \$ 1,066,088 | \$ 1,352,034 | \$ 4,230,313 |

| | | | |
|-------------------|---------------------|---------------------|---------------------|
| \$ - | \$ - | \$ - | \$ 77,647 |
| - | - | - | 11,574 |
| - | 232,018 | 232,018 | 232,018 |
| - | - | - | 1,039 |
| 1,140 | - | 1,140 | 2,740 |
| 1,140 | 232,018 | 233,158 | 325,018 |
| 284,806 | 834,070 | 1,118,876 | 1,118,876 |
| - | - | - | 2,786,419 |
| 284,806 | 834,070 | 1,118,876 | 3,905,295 |
| \$ 285,946 | \$ 1,066,088 | \$ 1,352,034 | \$ 4,230,313 |

City of Mount Clemens, Michigan

Special Revenue Funds

| | Major Streets and Trunklines | Local Streets | Dial-A-Ride | Drug Law Enforcement | Public Improvement | District Court Building | Total Special Revenue |
|--|---------------------------------|-------------------|-------------------|-------------------------|-----------------------|----------------------------|--------------------------|
| Revenue | | | | | | | |
| Property taxes | \$ - | \$ - | \$ 350,169 | \$ - | \$ 573 | \$ - | \$ 350,742 |
| State-shared - Grants and other | 833,062 | 282,511 | - | - | - | - | 1,115,573 |
| Local intergovernmental revenue | - | - | 48,258 | - | - | - | 48,258 |
| Special assessments | 3,524 | - | - | - | 56,916 | - | 60,440 |
| Charges for services | - | - | 62,828 | - | - | - | 62,828 |
| Interest | 7,632 | 2,128 | 6,406 | - | 283 | 4,949 | 21,398 |
| Fines, forfeitures, and fees | - | - | - | - | - | 347,618 | 347,618 |
| Miscellaneous revenue | 1,903 | 2,251 | 4,667 | 1,408 | - | - | 10,229 |
| Total revenue | 846,121 | 286,890 | 472,328 | 1,408 | 57,772 | 352,567 | 2,017,086 |
| Expenditures | | | | | | | |
| Public safety | - | - | - | 4,695 | - | - | 4,695 |
| Public works | 518,132 | 390,272 | 464,192 | - | 41,657 | 61,778 | 1,476,031 |
| Debt service: | | | | | | | |
| Principal retirement | - | - | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - | - | - |
| Total expenditures | 518,132 | 390,272 | 464,192 | 4,695 | 41,657 | 61,778 | 1,480,726 |
| Excess of Revenue Over (Under) | | | | | | | |
| Expenditures | 327,989 | (103,382) | 8,136 | (3,287) | 16,115 | 290,789 | 536,360 |
| Other Financing Sources (Uses) | | | | | | | |
| Transfers in | 50,000 | 210,000 | - | - | - | - | 260,000 |
| Transfers out | (236,502) | (24,448) | - | - | - | - | (260,950) |
| Total other financing sources (uses) | (186,502) | 185,552 | - | - | - | - | (950) |
| Net Change in Fund Balances | 141,487 | 82,170 | 8,136 | (3,287) | 16,115 | 290,789 | 535,410 |
| Fund Balances - Beginning of year | 810,382 | 237,937 | 511,571 | 2,248 | 54,801 | 634,070 | 2,251,009 |
| Fund Balances (Deficit) - End of year | <u>\$ 951,869</u> | <u>\$ 320,107</u> | <u>\$ 519,707</u> | <u>\$ (1,039)</u> | <u>\$ 70,916</u> | <u>\$ 924,859</u> | <u>\$ 2,786,419</u> |

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

| Debt Service Funds | | | |
|--------------------------------|-----------------------------------|-----------------------|---|
| General Obligation Bonds | Non-Voted Debt Service Fund | Total Debt Service | Total Nonmajor Governmental Funds |
| \$ 1,120,927 | \$ - | \$ 1,120,927 | \$ 1,471,669 |
| - | - | - | 1,115,573 |
| - | - | - | 48,258 |
| - | 153,672 | 153,672 | 214,112 |
| - | - | - | 62,828 |
| 4,069 | 25,410 | 29,479 | 50,877 |
| - | - | - | 347,618 |
| - | - | - | 10,229 |
| 1,124,996 | 179,082 | 1,304,078 | 3,321,164 |
| - | - | - | 4,695 |
| - | - | - | 1,476,031 |
| 220,000 | 275,000 | 495,000 | 495,000 |
| 6,679 | 47,519 | 54,198 | 54,198 |
| 226,679 | 322,519 | 549,198 | 2,029,924 |
| 898,317 | (143,437) | 754,880 | 1,291,240 |
| - | 110,950 | 110,950 | 370,950 |
| (925,000) | - | (925,000) | (1,185,950) |
| (925,000) | 110,950 | (814,050) | (815,000) |
| (26,683) | (32,487) | (59,170) | 476,240 |
| 311,489 | 866,557 | 1,178,046 | 3,429,055 |
| \$ 284,806 | \$ 834,070 | \$ 1,118,876 | \$ 3,905,295 |

City of Mount Clemens, Michigan

Other Supplemental Information Combining Balance Sheet Fiduciary Funds - Agency Funds June 30, 2004

| | Tax Collections | Fire Insurance Escrow | District Court | Totals |
|--------------------------------------|--------------------|--------------------------|-------------------|-------------------|
| Assets - Cash and investments | \$ 378 | \$ 44,155 | \$ 296,052 | \$ 340,585 |
| Liabilities | | | | |
| Due to other governmental units | \$ 378 | \$ - | \$ 51,824 | \$ 52,202 |
| Cash bonds and deposits | - | 44,155 | 244,228 | 288,383 |
| Total liabilities | \$ 378 | \$ 44,155 | \$ 296,052 | \$ 340,585 |

August 27, 2004

The Honorable Mayor and
City Commissioners
City of Mount Clemens
One Crocker Boulevard
Mount Clemens, MI 48043

Dear Mayor and Commissioners:

We have completed our audit of the financial statements of the City of Mount Clemens for the year ended June 30, 2004. In addition to our audit report, we offer the following comments and recommendations for your consideration:

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the City's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with the City Commission, administration, and other employees throughout the City; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

However, as part of the City's process of continuous improvement, we noted the following internal control matters that we would like to bring to your attention for consideration:

- Sound internal controls include the reconciliation of general ledger accounts to supporting subsidiary ledgers, reports and schedules on a periodic basis, including review of the reconciliations by a supervisor. During the course of the audit, we noted that the City's bank accounts were reconciled to supporting records; however no supervisory review was made of the reconciliations to ensure their accuracy. We also noted amounts listed as outstanding items on the reconciliations that were actually transactions recorded incorrectly, or omitted from the City's accounting records. The monthly reconciliation of bank accounts helps ensure that accurate financial information is available on a timely basis and serves as an important

internal control. We recommend that these reconciliations be reviewed by a supervisor upon their completion and that items requiring adjustment to the general ledger be addressed in a timely manner.

- Segregation of duties is also an essential component of internal controls. When job responsibilities are properly segregated, the risk of intentional or unintentional error or omission in the accounting records is reduced. To the extent one individual is not involved to a significant degree with the majority of duties in any given area; a system of "checks and balances" is created. Currently, one individual is responsible for making bank deposits, has access to the general ledger and is able to post entries therein. We recommend that these functions be segregated or that the City consider utilizing an outside organization (such as an armored truck service) to deliver deposits to the bank.

While we understand that internal control matters are often an issue of the allocation of limited resources, we recommend that the City consider implementing these provisions to ensure proper supervisory review and segregation of duties.

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

During the year ended June 30, 2004, General Fund expenditures exceeded revenues by approximately \$796,000. Fund balance at June 30, 2004, totaled approximately \$2,249,000. Of this amount, \$2,040,000 is designated for specific purposes, including capital improvements, currently unfunded post-employment benefit obligations, and other purposes, and the remaining \$209,000 is undesignated.

During the 2003-2004 fiscal year, the City experienced only modest growth in property tax revenue and a reduction in State revenue sharing; however, most departments were near or below budgeted expenditures. We compliment the City Commission and administration for their success in planning and monitoring the budget

The City continues to be faced with budgetary challenges. Many challenges, including the potential for further reductions in State revenue sharing payments, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as the limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs and currently unfunded post-employment benefit obligations, are a characteristic of the City and its physical framework. We encourage the City Commission and administration to continue to closely monitor the budget to ensure that fund balance reserves are adequate.

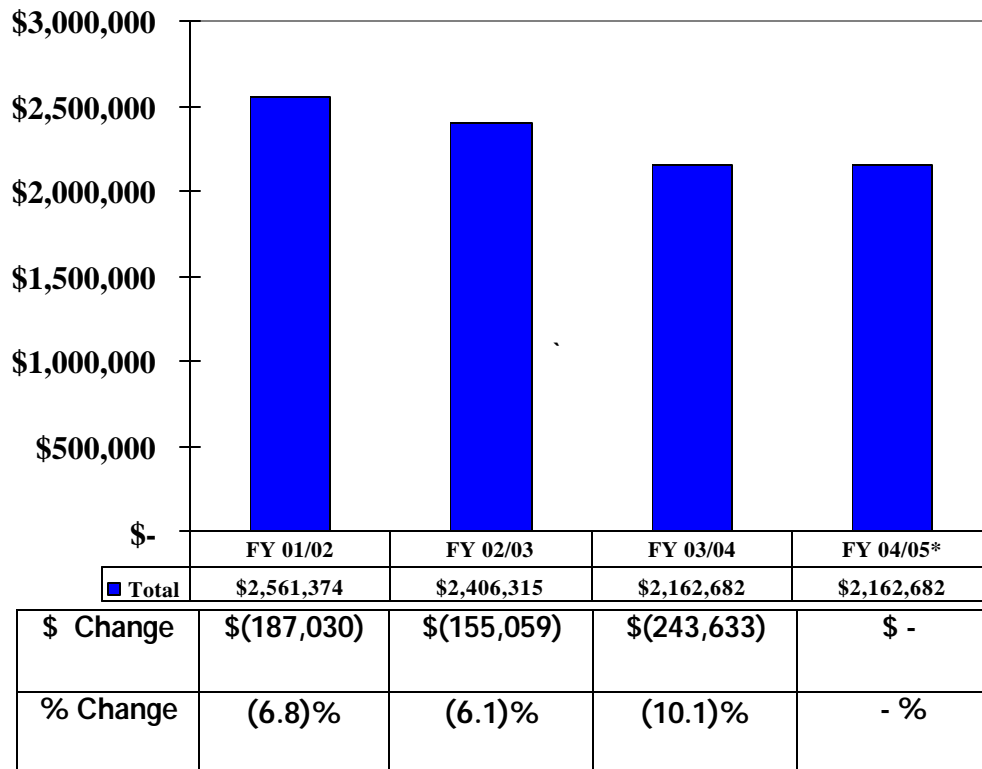
STATE REVENUE SHARING

The City has continued to feel the effects of the sluggish State economy. Significant budget shortfalls at the State of Michigan negatively impact the City as a result of reduced revenue

sharing payments. As you are aware, revenue sharing payments are funded solely through sales tax collections. Budget cuts to the statutory portion of revenue sharing made by the State have further compounded the effect of sales tax collections that are still rebounding from previous declines. State shared revenue payments, which totaled approximately 19 percent of the 2004 General Fund Budget, decreased from the payments received in 2003 by approximately nine percent and based on the current projections provided by the State of Michigan, revenue sharing payments are not expected to increase in 2004-2005.

We have included the following chart to provide you with more detail on what has occurred with revenue sharing relative to the City of Mount Clemens. The chart demonstrates the impact that these cuts in revenue sharing by the State have had on the City. For the City, projected revenue sharing funding levels are \$585,722 less for the 2005 fiscal year as compared to fiscal year 2001.

Total State Shared Revenue – City of Mount Clemens



*Projected (Data Source for all State Fiscal Years Michigan Department of Treasury.)

It is uncertain at this point in time whether sales tax collections will rebound in 2004-2005 or whether the State will make future accommodations to replace revenue lost as a result of budget cuts. As such, we recommend that the City continually monitor the impact of changes to projected revenue sharing payments on the General Fund budget. In addition to the periodic updates that we provide to the City, updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697.

REVENUE BOND COVENANTS

The City is subject to bond covenants for the revenue bond issues in the Water Supply and Sewage Disposal Funds. Specifically, the City is required to maintain and restrict adequate cash reserves for operation and maintenance of the systems, debt service payments, and additional bond reserves. At June 30, 2004, the City's cash balances in the Water Supply and Sewage Disposal Funds fell approximately \$1,284,000 short of the reserve requirements. We recommend that the City continue to evaluate Water and Sewer usage rates in order to ensure that all debt service requirements and the bond requirements are met in the future.

FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

As you are aware, the City provides post-employment benefits to retirees that are funded currently from the General Fund. For the year ended June 30, 2004, the cost of these benefits amounted to approximately \$1,453,000, an increase of approximately 10 percent over fiscal year 2003. The City has experienced post-employment health care cost increases of 10 to 20 percent over the past several years and this annual cost is expected to continue grow as the average age of the City's workforce and the number of former employees eligible for post-employment benefits increases.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the *government-wide financial statements*, rather than the individual fund level. As a result, the City will need to continue to budget only the expected cash payments, whether directly for health insurance premiums or for contributions to a pre-funding plan.

While the new standard will not require the City to pre-fund retiree healthcare benefits, it will require an actuarial valuation to be performed to measure the obligation, similar to what is done for the Employees' Retirement System. The statement will not be effective until the City's 2008-09 fiscal year; however, we recommend that the City begin evaluating the pre-funding post-employment benefit obligations on an actuarial basis. Actuarial funding generally provides the best mechanism for funding obligations over long time periods and multiple budget cycles. We

Honorable Mayor and
City Commissioners
City of Mount Clemens

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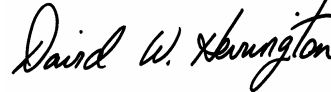
August 27, 2004

would be happy to assist the City in this endeavor.

We would like to thank the Mayor and City Commission for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink that reads "David W. Herrington". The script is cursive and fluid.

David W. Herrington

A handwritten signature in black ink that reads "David V. Grubb". The script is cursive and fluid.

David V. Grubb